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Letter dated 2 May 2014 from the Secretary-General addressed to the President of the Security Council

Pursuant to Security Council resolution 1031 (1995), I have the honour to transmit the forty-fifth report on the implementation of the Peace Agreement on Bosnia and Herzegovina, covering the period from 21 October 2013 to 21 April 2014, which I received from the High Representative for Bosnia and Herzegovina (see annex).

I should be grateful if you would bring the report to the attention of the members of the Security Council.

(*Signed*) **BAN** Ki-moon

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Annex

Letter dated 2 May 2014 from the High Representative for Bosnia and Herzegovina addressed to the Secretary-General

Pursuant to Security Council resolution 1031 (1995), in which the Council requested the Secretary-General to submit to it reports from the High Representative in accordance with annex 10 of the General Framework Agreement for Peace in Bosnia and Herzegovina and the Conclusions of the London Peace Implementation Conference of 8 and 9 December 1995, I herewith present to you the forty-fifth report of the High Representative for Implementation of the Peace Agreement on Bosnia and Herzegovina. I would ask that this report to be distributed to the Council members for their consideration.

This is my eleventh report to the Secretary-General since assuming the post of High Representative for Bosnia and Herzegovina and European Union Special Representative on 26 March 2009. The present report covers the period from 21 October 2013 to 21 April 2014.

Should you or any Council member require any information beyond what is provided in the attached report or have any questions regarding its contents, I should be pleased to provide you with it.

(*Signed*) Valentin **Inzko**

Forty-fifth report of the High Representative for Bosnia and Herzegovina

Summary

The present report covers the period from 21 October 2013 to 21 April 2014. Regrettably the downward trajectory the country has been on during the last eight years has continued during the reporting period. Political leaders continued to fail to advance on a broad range of issues including those which are conditions for Bosnia and Herzegovina to move towards Euro-Atlantic integration. Despite the commendable and exhaustive efforts of senior European Union officials, political leaders failed to reach an agreement on the *Sejdic-Finci* case, key to opening the way for Bosnia and Herzegovina's application for membership in the European Union and for demonstrating the equality of all citizens under the law. As a result, the discrimination cited in the *Sejdic-Finci* case against a sizeable group of citizens remains. Similarly, there was no concrete progress on resolving the status of military property, a necessary step to allow for the activation of the country's NATO membership action plan. Despite some good economic news in regard to increases in exports of 6.6 per cent in 2013, there was a significant drop in direct foreign investment and unemployment remained high, indicating the bleak economic conditions under which many citizens continue to live.

Early in February demonstrations broke out in several major cities in the country over citizens' frustration with the socioeconomic situation, corruption and elected politicians in general. Regrettably, those demonstrations turned violent over two days, but thankfully did not result in loss of life and continued peacefully from that point on. During the violence, the Bosnia and Herzegovina Presidency building was attacked and suffered minor damage. Continuing problems in coordination between police agencies at different levels were also evident. The international community has been supportive of the right to demonstrate while also making clear that violence is not acceptable. While the demonstrations were first and foremost a call for elected officials and political parties in Bosnia and Herzegovina to change their approach, especially on corrupt patronage networks that underpin the public sector, they should also serve as a signal to the international community that our current approach needs to be recalibrated if we are to effectively support irreversible progress in Bosnia and Herzegovina.

Direct-democracy citizen groups calling themselves "plenums" followed from the protests in the Federation and the Brcko District, in which interested citizens were given an opportunity to articulate grievances, and these were redacted into a set of concrete demands put to local authorities. Those demands have included calls for resignations of local governments, reductions in salaries and benefits for elected officials, audits of dubious privatizations and various socioeconomic reforms. In four cantons in the Federation, local governments accepted the calls by plenums that they resign. This new form of civic engagement is a welcome development in terms of holding governments to account and encouraging the political class in the country to refocus their energies on serving the interests of citizens, but it must now continue as active engagement in the run-up to and participation in general elections in October 2014 if it is to have a lasting effect.

From the point of view of my mandate to uphold the civilian aspects of the General Framework Agreement for Peace, the marked increase during the reporting period of statements by officials of Republika Srpska challenging the sovereignty and territorial integrity of the country is a significant concern. The frequency and directness of those statements increased significantly following recent events in Ukraine, and they have included almost daily advocacy for a future referendum in Republika Srpska on secession from Bosnia and Herzegovina, in particular by the President of Republika Srpska. Under the authority vested in me, I have made clear that the General Framework Agreement does not provide the entities the right to secede.

In the complex environment that currently prevails in the country, the presence of the European Union military mission in Bosnia and Herzegovina with an executive mandate remains of vital importance, enabling my Office and others in the international community to fulfil our respective mandates.

I. Introduction

1. This is my eleventh report to the Secretary-General since assuming the post of High Representative for Bosnia and Herzegovina. It provides a narrative description of progress made towards attaining the goals outlined in previous reports, registers factual developments, logs relevant citations relating to the reporting period, and provides my assessment of the implementation of key areas falling under my mandate. I have focused my efforts on addressing those areas, in line with my primary responsibility to uphold the civilian aspects of the General Framework Agreement for Peace, while also encouraging progress on the five objectives and two conditions for the closure of the Office of the High Representative and working to preserve steps that have previously been taken to implement the Agreement.

2. My energies continue to be directed towards meeting my mandate as defined under annex 10 of the General Framework Agreement and relevant resolutions of the Security Council. My Office fully supports the efforts of the European Union and NATO to help Bosnia and Herzegovina to move along the path towards closer integration with those organizations.

II. Political update

A. General political environment

3. The reporting period has been characterized by a continuing failure on the part of institutions and political leaders to advance a broad range of issues, including those steps that are necessary for the country to advance towards Euro-Atlantic integration.

4. In response to the failure of the authorities to tackle their problems, and in support of a protest that began in Tuzla a few days before, citizens in many cities in Bosnia and Herzegovina took to the streets on 7 February to call on the authorities to address many long-standing economic and social concerns. Regrettably the demonstrations turned briefly violent, but thankfully resulted in no loss of life. The plenums that emerged as forums for protesters and others in the community to formulate their demands to governments in the Federation and the Brcko District offer hope that the citizens and civil society of Bosnia and Herzegovina will finally become more active in holding their elected representatives to account.

5. Regrettably some political leaders and parties attempted to exploit the demonstrations for political gain in advance of the forthcoming elections, including by attempting to portray them as having a hidden ethnic agenda. Also of major concern is the rise in statements and actions challenging the fundamentals of the General Framework Agreement. Unilateral actions taken by Republika Srpska towards adopting an entity-level residence law and the adoption by the Republika Srpska government of a decree on residence verification, despite the fact that this matter is exclusively regulated at the state level, could represent attempts to reverse measures taken to implement core provisions of the Agreement, including those related to freedom of movement.

B. Decisions of the High Representative during the reporting period

6. During the reporting period, I refrained from using my executive powers in line with the policy of the Steering Board of the Peace Implementation Council of emphasizing "local ownership" over international decision-making.

7. During the reporting period, a decision taken on 29 March 2005 by one of my predecessors, which had barred Dragan Čović, the President of the Croatian Democratic Union of Bosnia and Herzegovina (HDZ Bosnia and Herzegovina), from holding executive office, was taken out of force. The decision had stipulated that it would come out of force if a judicial process referred to in the decision were to terminate, which, on the basis of information received from the Supreme Court of the Federation, I understand has now occurred.

C. Five objectives and two conditions for closure of the Office of the High Representative

Progress on objectives

8. During the reporting period, the authorities in Bosnia and Herzegovina failed to make any concrete progress on the outstanding objectives set by the Steering Board of the Peace Implementation Council as prerequisites for the closure of the Office of the High Representative.

State and defence property

9. My Office continued efforts to facilitate the resolution of the status of state and defence property, primarily through direct contacts with the relevant domestic and international stakeholders, including commissions, working groups and political party representatives. However, the lack of political will to achieve a compromise within the framework of principles laid down in the relevant decision of the Constitutional Court of Bosnia and Herzegovina continued to be the primary obstacle to progress.

10. As described in my last report, my Office, together with other international partners, analysed a draft law on state and defence property which emerged from an agreement in October 2013 between the Alliance of Independent Social Democrats (SNSD) and the Social Democratic Party (SDP). This analysis raised serious concerns both regarding the draft law's compatibility with the decision of the Bosnia and Herzegovina Constitutional Court of July 2012 on this matter, as well as the technical implementability of its provisions. Among other concerns, the draft law denied full ownership rights over public property (that is, the rights of free use and disposal) by the state of Bosnia and Herzegovina, providing instead for a right of use over a small number of assets for a limited time and subject to robust residual rights held by the entities and other levels of authority in Bosnia and Herzegovina.

11. In November 2013, my Office communicated these concerns to the Peace Implementation Council Steering Board Ambassadors and other international community stakeholders, who welcomed the Office's assessment and our offer to assist the parties' efforts to bring the draft law into line with the court decision. My Office held technical discussions with political party officials, who committed themselves to ensuring that any draft approved by the ministerial working group for

consideration by the Council of Ministers would conform to the decision of the Constitutional Court on state property. However, despite subsequent revisions to the draft bringing it into conformity with the Constitutional Court's decision, the Council of Ministers of Bosnia and Herzegovina adopted a report on the working group's activities in April indicating that the earlier consensus on the draft no longer existed and recommending its withdrawal from further procedure.

12. In addition, on 15 April 2014, the Bosnia and Herzegovina House of Representatives rejected a proposed law on the disposal of immovable military property, submitted by a delegate from the Union for a Better Future of Bosnia and Herzegovina (SBB), as the proposal failed to receive the necessary support from delegates elected from Republika Srpska, who insisted on the resolution of all state and defence property issues within the framework of a single law.

13. During the reporting period, the Commission for State Property continued to honour my earlier request to refrain from granting new exemptions to the state property disposal ban. On 10 March, I wrote to the Chair of the Commission reminding him of the Commission's outstanding obligation to submit to my Office the complete documentation relating to decisions adopted by the Commission exempting specific assets from the state property disposal ban so that my Office can complete a comprehensive analysis of the existing exemption mechanism. The obligation remains outstanding.

Fiscal sustainability

14. During the reporting period, the Office of the High Representative continued to follow and keep its international partners informed of developments in the Governing Board of the Indirect Taxation Authority and the Bosnia and Herzegovina Fiscal Council. The Fiscal Council met only once in the reporting period and its deliberations were primarily related to the International Monetary Fund (IMF) Stand-by Arrangement. The Governing Board of the Indirect Taxation Authority continued to meet regularly under the chairmanship of the Bosnia and Herzegovina Minister of Finance and Treasury. Despite the increased efficiency of the Governing Board in addressing issues within its responsibility, such as the long-overdue setup of its Final Consumption Unit, fiscal pressures in the entities contributed to continued disputes over revenue allocation and debt settlement, in particular for the second half of 2012, for which Republika Srpska owes the Federation the equivalent of approximately €10 million.

15. Fiscal pressures in the entities also contributed to the launching of an initiative to revise the indirect tax revenue allocation coefficient for the Brcko District, which is currently regulated by the High Representative's decisions of 4 May 2007. Consultations in March between the Bosnia and Herzegovina Minister of Finance and Treasury and Brcko District officials resulted in an understanding of the principles of a new indirect tax revenue arrangement for Brcko. However, the Governing Board of the Indirect Taxation Authority failed to support draft amendments to relevant legislation emerging from those discussions, primarily due to opposition from the Republika Srpska Minister of Finance, who argued that such changes would require the involvement of entity parliaments and sought to link them to a broader revision of the indirect taxation system in the country. My Office will continue to follow discussions on this issue to ensure that all sides deliver on

the commitment to act constructively towards a lasting and mutually acceptable solution through state-level legislation.

Brcko District

16. Following the closure on 31 August 2012 of the Brcko Office and the issuing of a Supervisory Order Regulating the Status of Legal Acts, the Brcko District Supervisor no longer intervenes in the day-to-day affairs of the District, although he has retained full authority to resume — at his own discretion — the exercise of his authorities should circumstances warrant. The Arbitral Tribunal for the Dispute over the Inter-Entity Boundary in the Brcko Area remains in existence and constitutes a deterrent against possible interference by the entities.

17. The 2014 Brcko District budget was adopted in December 2013, the first time since the establishment of the District that this has been accomplished within the prescribed legal timeframe. A reshuffle of the Assembly majority in January and February brought three additional votes and the SBB party into the majority.

18. In February, the Brcko District Supervisor lifted bans on holding public office in the Brcko District against three individuals who had been removed from their positions in 2007 and 2008. This was a part of a process to review removal decisions on a case-by-case basis, and in no way did it alter the 2012 decision of the Supervisor to suspend his functions. With these decisions in place, no supervisory bans on office of Brcko residents remain in force.

D. Challenges to the General Framework Agreement for Peace

Challenges to the sovereignty and territorial integrity of Bosnia and Herzegovina

19. The reporting period saw a notable rise in statements by a number of officials from Republika Srpska challenging the sovereignty and territorial integrity of Bosnia and Herzegovina, including by openly advocating for Republika Srpska's right to self-determination and for the entity to secede.[1] These statements have alternately predicted and advocated for the dissolution of Bosnia and Herzegovina as something inevitable,[2] and threatened that the dissolution of the country will

[1] "Citizens of the Republika Srpska have a legitimate right to decide on the independence of the Republika Srpska in a referendum ...". President of Republika Srpska, Milorad Dodik, *Glas Srpske*, 7 April 2014; "The people of the Republika Srpska have a legitimate right to decide on their destiny in a referendum and the Republika Srpska does not want to lose this option", *RTRS*, 5 April 2014; "The situation in Bosnia and Herzegovina can go in two directions — unitary state or dissolution ... The second one is dissolution, which is what we and the Croats advocate, though they will never admit it publicly, while Bosniaks oppose it", *Nezavisne Novine*, 11 March 2014; "The key solution for us here in Bosnia and Herzegovina is the independence of the Republika Srpska", Milorad Dodik, *Dnevni List*, 23 February 2014; "The best reform for this country would be peaceful dissolution and the creation of Herceg Bosna, Republika Srpska and Bosnia as states. When this is complete, then we can establish a confederate relationship", Milorad Dodik, *Večernji List*, 13 February 2014.

[2] "The international community invested a lot of money in the wrong political idea. I do not believe in the future of Bosnia and Herzegovina", President of Republika Srpska, Milorad Dodik, *RTRS*, 4 April 2014; "Bosnia and Herzegovina does not have a future and the only permanent solution is dissolution", *Kathimerini*, 12 February 2014; "Bosnia and Herzegovina is sliding towards disintegration...", Milorad Dodik, *RTRS*, 9 February 2014; "Bosnia and Herzegovina is an illusion and an unsustainable country", Milorad Dodik, *Der Standard*, 1 February 2014.

occur if the competencies of the state are not dramatically reduced or the country reorganized as some kind of confederation.[3] Republika Srpska officials have also continued to mischaracterize the entities as states possessing their own sovereignty.[4] In December 2013, the Republika Srpska President publicly proclaimed achievement of Republika Srpska's independence as a national goal.[5]

20. Although the Republika Srpska President continues to be the most frequent and vocal exponent of state dissolution, during the reporting period he was joined by other officials of his party at the level of both Republika Srpska and the institutions of Bosnia and Herzegovina.[6]

21. During the reporting period, the Republika Srpska President and other Republika Srpska officials made statements linking the events in Ukraine, specifically the referendum in Crimea, with the future independence of Republika Srpska,[7] and the incidence of statements challenging the sovereignty and territorial integrity of Bosnia and Herzegovina rose considerably during March and April 2014.

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[3] "For us, Serbs, there are three possible solutions: one is to remain with the status quo, the second is to get back seized competences and the third is a decision of the Republika Srpska, which would lead to proclaiming its independence", President of Republika Srpska, Milorad Dodik, *Blic*, 6 April 2014; "Our next step is the opening of a dialogue ... on the restructuring of Bosnia as a confederation consisting of three states. If this proves impossible, Republika Srpska retains the right to hold a referendum on its status", Milorad Dodik, *Reuters*, 1 April 2014; "Currently we comply with the Dayton Peace Agreement because we do not want to be characterized as one who undermines that document. However, if the situation becomes unbearable, the Republika Srpska has the legitimate right to ask for independence", Milorad Dodik, *Voice of Russia*, 10 March 2014.

[4] "I experience the Republika Srpska as a state, whether someone likes it or not, and the authorities in the Republika Srpska will continue to behave in such a manner in the future", President of Republika Srpska, Milorad Dodik, *RTRS*, 9 February 2014; "We are a statebuilding nation which is not creating a state for its own sake but as a guarantee for its national freedom and development. This is how Republika Srpska was created, on the basis of domestic and international law, and it is today part of the state union of Bosnia and Herzegovina", Milorad Dodik, *SRNA*, 9 January 2014.

[5] "The independence of the Republika Srpska is a national and people's goal, and it should be a political one", President of Republika Srpska, Milorad Dodik, *TV 1*, 30 December 2013.

[6] "SNSD will continue to promote the right of the Republika Srpska and its citizens to self-determination and independence, clearly and publicly", SNSD MP and Deputy Speaker in the Bosnia and Herzegovina House of Peoples, Staša Košarac, *RTRS*, 30 March 2014; "In any case, the story about a referendum, when it comes to the Republika Srpska, is not a taboo nor is it artificially raised from time to time ... We have the right to self-determination if one accepts international norms", Prime Minister of Republika Srpska, Željka Cvijanović, *Večernji List*, 30 March 2014; "Authorities in the Republika Srpska will be forced to unilaterally declare a kind of independence", Vice-President of Republika Srpska, Emil Vlajki, *BN Television*, 14 March 2014; "The Republika Srpska wants a higher level of autonomy, even secession from Bosnia and Herzegovina, while the Federation wants further centralization", Serb member of the Bosnia and Herzegovina Presidency, Nebojsa Radmanović, *Večernje Novosti*, 11 March 2014; "Bosnia and Herzegovina is only possible if the system undergoes evolution", Bosnia and Herzegovina Minister of Finance, Nikola Špirić, *Večernji List*, 5 March 2014.

[7] "The practice of Crimea will create a new practice in the world and the processes of self-determination are becoming more and more legitimate. One day we will organize a referendum, but that moment needs to be carefully chosen without political voluntarism and with the understanding who our allies are in that process", President of Republika Srpska, Milorad Dodik, *Voice of Russia*, 10 March 2014.

22. The sovereignty and territorial integrity of Bosnia and Herzegovina is guaranteed by the Constitution of the country and by international law, including the General Framework Agreement. Under the Constitution of Bosnia and Herzegovina, the entities exist as a part of the country and there is no possibility for them to secede. I have reiterated this point on several occasions during the reporting period. Nevertheless, in accordance with my mandate under the Agreement and relevant resolutions of the Security Council, I remain concerned about the destabilizing effect which statements promoting secession have on the situation inside the country. I am also concerned about the use of constitutional blocking mechanisms at the state level to prevent Bosnia and Herzegovina from moving forward, while then citing this lack of progress as a reason for the country to dissolve.

Blocking the functioning of Bosnia and Herzegovina institutions

23. On 31 January and 1 February, the Republika Srpska President and Prime Minister threatened to block Bosnia and Herzegovina institutions in response to Bosniak politicians receiving the former military commander of the Bosnia and Herzegovina Army in Srebrenica in the Bosnia and Herzegovina Presidency on 30 January after Serbia suggested it would indict him for war crimes. In February, Republika Srpska delegates in the Bosnia and Herzegovina House of Representatives walked out of a session of the House over questions related to how Bosnia and Herzegovina would react to an INTERPOL war crimes arrest warrant against a wartime Republika Srpska general, although the House of Representatives resumed normal functioning later in the month once Bosnia and Herzegovina had protested against the warrants. On 5 April, the Republika Srpska President threatened in a press statement to block decision-making in the Bosnia and Herzegovina Council of Ministers if the Bosnia and Herzegovina institutions were to refuse to support the South Stream gas pipeline project.

24. The Bosnia and Herzegovina House of Peoples failed to meet between December and March owing to the lack of a quorum stemming from the serious health issues of a number of Bosniak delegates. At the same time, a number of senior officials of the Party of Democratic Action (SDA) threatened that the party would block the quorum of the House over controversial changes to legislation on residence registration; however, the House of Peoples resumed work on 12 March.

Challenges to the competencies of Bosnia and Herzegovina institutions

25. In response to the ongoing failure of the House of Peoples to adopt changes to the Law on Temporary and Permanent Residence, which would provide for more thorough verification of residence applications, Republika Srpska has taken unilateral steps to legislate residence issues at entity level. On 6 March the Republika Srpska government passed an entity Law on Residence under urgent procedure, which was moved into regular procedure in the Republika Srpska National Assembly on 8 April and passed in the first reading. If adopted, the law will represent another step by an entity to legislate on a matter already regulated by state law. A subsequent decision by the Republika Srpska government on 17 April on residence checks also raised concerns, given the state competency in this area, and evoked fears by Bosniaks that the regulations would be applied in a discriminatory manner. Previous examples of Republika Srpska legislating on matters already regulated by state law include the Republika Srpska Law on Courts, separate regulation on the single identification number, and the Law on the

Television of Republika Srpska. Under the Constitution, the entities are bound to comply with decisions of the institutions of Bosnia and Herzegovina.

Challenges to the single economic space in Bosnia and Herzegovina

26. Late in 2013, the Federation authorities adopted measures regarding the quality control of products for import and export, which sought to ensure that no product imported into Bosnia and Herzegovina could be placed on the Federation market unless first certified by Federation-level inspectors. These measures directly affected products imported to the country through Republika Srpska, thus compromising the free movement of goods and challenging the single economic space in Bosnia and Herzegovina. As such, the measures — which the Federation claimed were necessary in the absence of implementing regulations under the Bosnia and Herzegovina Law on Quality Control — also raised concerns with regard to their compliance with the Bosnia and Herzegovina Constitution. As a result of subsequent negotiations, the Federation, Republika Srpska and the Brcko District agreed to work together towards harmonizing quality control regulations to be passed in the form of implementing regulations under the state law and applied in a uniform manner throughout Bosnia and Herzegovina. The European Union is continuing to follow up this issue with the relevant authorities of Bosnia and Herzegovina.

Challenges to Bosnia and Herzegovina judicial institutions

27. The Republika Srpska President and other senior Republika Srpska officials have continued public attacks against key state institutions established to exercise the responsibilities of the state under the Constitution of Bosnia and Herzegovina and to safeguard the rule of law.[8] During the reporting period, the Republika Srpska President and other officials claimed that the Court and Prosecutor's Office of Bosnia and Herzegovina were illegitimate and unconstitutional bodies created by the international community and that "there will be a time when we will be able to talk about a significant redefinition and reduction of their role".[9] Annex IV of the General Framework Agreement, which is also the Constitution of Bosnia and Herzegovina, enumerates the responsibilities of the institutions and enables Bosnia and Herzegovina to establish institutions to carry out these competencies. The Constitutional Court of Bosnia and Herzegovina has on a number of occasions established that the Court and the Prosecutor's Office exercise those competencies within the constitutional framework.

[8] "I want to abolish the Court and Prosecutor's Office of Bosnia and Herzegovina because they do not have a constitutional basis to exist", President of Republika Srpska, Milorad Dodik, *FTV*, 17 February 2014; "We are completely dissatisfied with the Court and Prosecutor's Office of Bosnia and Herzegovina, which were established forcefully and not in accordance with the Constitution and the Dayton Peace Agreement. They are not showing any effects (of their work) and they do not deserve any support", Milorad Dodik, *Press RS*, 30 December 2013; "The Court of Bosnia and Herzegovina and the Prosecutor's Office were not foreseen by the Bosnia and Herzegovina Constitution: all Republika Srpska parties were requesting their abolishment. Everyone from the Republika Srpska has been requesting that for a long time. Let me remind you, those institutions are outside the Bosnia and Herzegovina Constitution and that issue is linked with foreigners, that is whether someone has come here and changed the Constitution, and that indeed happened ...", Serb member of the Bosnia and Herzegovina Presidency, Nebojsa Radmanović, *Oslobodjenje*, 31 October 2013.

[9] President of Republika Srpska, Milorad Dodik, *SRNA*, 29 December 2013.

28. On 29 October, the National Assembly of Republika Srpska adopted conclusions related to the annual report for 2012 on the work of the High Judicial and Prosecutorial Council, calling for the Council to be split into three separate councils at entity and state level. In addition, the conclusions made reference to problematic conclusions of the National Assembly on this matter of 13 April 2011 and 1 June 2011. On 6 November 2013 the Office of the High Representative, the delegation of the European Union to Bosnia and Herzegovina/European Union Special Representative and the Embassy of the United States of America in Bosnia and Herzegovina issued a joint statement condemning attempts to exert political pressure and improper influence on these institutions, recalling also that the National Assembly of Republika Srpska has a duty to respect and observe the independence of the judiciary, which should be able to act free of any pressure from either the legislature or the executive.

III. State-level institutions of Bosnia and Herzegovina

Presidency of Bosnia and Herzegovina

29. The Presidency of Bosnia and Herzegovina met regularly during the reporting period, holding 6 regular sessions and 10 urgent sessions. They adopted decisions including on the extension of Bosnia and Herzegovina's participation in international peacekeeping operations in Afghanistan and in the Democratic Republic of the Congo, and on the contribution of troops to the United Nations mission in Mali. On 10 March, the Bosniak member of the Presidency assumed the chairmanship of the Presidency, which will run until the general elections of October 2014.

30. The Presidency issued a statement on 6 March calling on all parties to the dispute in Ukraine to refrain from the use of force and to immediately engage in political dialogue to resolve the situation in the interest of peace, and regional and global stability. However, the Presidency was unable to agree on a stance vis-à-vis the resolution on the territorial integrity of Ukraine, adopted by the General Assembly on 27 March, or on whether to align Bosnia and Herzegovina with the European Union's restrictive measures in response to recent events in Ukraine.

Council of Ministers of Bosnia and Herzegovina

31. The Council of Ministers of Bosnia and Herzegovina continued to convene on a regular basis despite the difficult political situation, holding a total of 26 sessions during the reporting period. The legislative output of the Council of Ministers fell short of expectations, with four new laws and 10 sets of amendments to existing legislation being adopted. These included the 2014 state budget and the Public Procurement Law, as well as amendments to the Law on the Electricity Transmission Company and amendments to the Law on Money Laundering and Financing of Terrorist Activities. The Council of Ministers also adopted its work plan for 2014, the framework budget for 2014-2016, and the partnership action plan for NATO for the period 2014-2016.

32. Following the protests of 7 February, which resulted in injuries to a number of police officers, protesters and journalists, as well as the burning of the Presidency building, the Council of Ministers held two sessions with competent state-level law

enforcement agencies to discuss how best to improve the provision of security for the Bosnia and Herzegovina institutions.

33. The Minister of Foreign Trade and Economic Relations, the Deputy Minister of Defence and the Deputy Minister of Human Rights and Refugees, all of the Serb Democratic Party (SDS), were removed by the Parliamentary Assembly in November 2013 on the initiative of SNSD, and replaced in December with SNSD appointees.

34. In the aftermath of the protests of 7 February, SDA initiated the removal of the Minister of Security from SBB. This initiative is now pending before the Bosnia and Herzegovina House of Peoples, following a vote to support the removal by the House of Representatives in March.

Parliamentary Assembly of Bosnia and Herzegovina

35. The Parliamentary Assembly of Bosnia and Herzegovina continued to struggle to meet its responsibilities to take the country forward, ever more preoccupied with unconstructive political bickering and the approaching election campaign. While the House of Representatives held 10 sessions during the reporting period, the House of Peoples held only four sessions, not least due to problems securing a quorum because several Bosniak delegates were seriously ill. The Parliamentary Assembly was also affected by the SNSD decision to push SDS out of the state-level coalition with an attendant change in the leadership of the House of Peoples.

36. During the reporting period, the Parliamentary Assembly adopted three new laws, including the law on the 2014 budget and 13 sets of amendments to existing legislation.

37. Laws continue to be blocked due to a lack of support on the part of delegates elected from the entities, in particular from Republika Srpska. An example of this was the proposed Law on the Prevention of Money Laundering and Financing of Terrorist Activities, which was rejected in parliament by delegates from parties which had previously supported the law in the Council of Ministers. The law had been drafted on the basis of recommendations from the 2009 evaluation report of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL). MONEYVAL has said that failure to adopt the law will require it to publicly express concern about Bosnia and Herzegovina's lack of systems to prevent money laundering and terrorist financing.

38. The issue of proposed amendments to the Law on Permanent and Temporary Residence, which would tighten controls on individuals registering their residence, has caused deep divisions in the country. In Bosnia and Herzegovina, the voting lists are mostly drawn from the residence database, and Republika Srpska representatives see the requirement in the draft amendments to provide proof of residence as essential to ensuring the integrity of the voting and residence registers and to preventing new residence registrations solely for the purpose of gaining voting rights in Republika Srpska, especially in the run-up to the October 2014 elections. Bosniak non-governmental organizations engaged in a drive to encourage Bosniaks to vote in Republika Srpska in the upcoming elections, and SDA has been strongly against the tightened controls, alleging that they impede the right to return guaranteed by the Peace Agreement, and has characterized them as a continuation of

ethnic cleansing. The dispute over the amendments portends further and intensified controversy over the registration process in the pre-election period.

39. On 5 November, the Bosniak caucus invoked vital national interest in the House of Peoples in an effort to veto the amendments, but the Constitutional Court of Bosnia and Herzegovina dismissed the invocation. At the session of the House of Peoples on 12 March, the Bosniak caucus proposed that the law be considered under regular procedure to allow for the introduction of amendments, which they believe would help to mitigate the possibility for misinterpretation and abuse of returnee rights. The issue is pending in the House. In the meantime, the Republika Srpska authorities have initiated the process of adopting an entity-level law on residence, which, if adopted, would represent unilateral action by an entity to legislate on a matter already regulated by the state. In addition, on 17 April, the Republika Srpska government adopted a decision requiring certain documentary proof to be provided by those applying for registration. This has also raised concerns given the fact that this matter is regulated by state law, but the text of the decision has still not been made public nor have the Republika Srpska authorities made it available to my Office at the time of writing of this report.

40. Issues related to the judiciary continued to feature prominently on the agenda of the Parliamentary Assembly. Following the July ruling of the European Court of Human Rights in the Maktouf case (see para. 74 for more details), SNSD introduced amendments to the Criminal Procedure Code aiming to require a retrial of all war crimes cases finally adjudicated under the 2003 Bosnia and Herzegovina Criminal Code. These were adopted by the House of Peoples, but subsequently rejected by the House of Representatives in February, following engagement by the international community. On 6 February, Serb delegates walked out of the session of the House of Representatives in protest at the failure of the Ministry of Justice to provide an immediate response on the legal status of two Republika Srpska generals, one of whom was the subject of an INTERPOL arrest warrant. The trend of the rejection of the annual reports on the work of state-level judicial institutions due to opposition from delegates from Republika Srpska continued with the rejection of reports for 2012 on the work of the High Judicial and Prosecutorial Council and the Prosecutor's Office.

No decision on constitutional amendments relating to the ruling in the Sejdic-Finci *case*

41. Reflecting the failure of political leaders to make a breakthrough on the implementation of the judgement of the European Court of Human Rights in the *Sejdic-Finci* case, the Parliamentary Assembly failed to vote on any of the proposals submitted to it to amend the Constitution of Bosnia and Herzegovina in this regard.

Citizen identification number

42. On 5 November 2013, the House of Peoples adopted amendments to legislation that regulates the issuance of citizen identification numbers, bringing to an end the months-long political and institutional crisis that saw large-scale public protests in June 2013. As a result, citizens of Bosnia and Herzegovina were again able to receive citizen identification numbers through the same single, state-wide system that was in operation before the crisis.

Preparations for the 2014 general elections

43. The Central Election Commission is expected to announce in May that elections will be held in October 2014, in accordance with the Bosnia and Herzegovina Election Law. The Parliamentary Assembly established an Inter-Agency Working Group in November 2013 to prepare amendments to the Election Law. Members of the Group sent amendments providing for limited technical improvement to the Election Law to the parliament for adoption under urgent procedure. On 15 April, the House of Representatives supported the amendments by simple majority, but they have been sent for harmonization in the Collegium as they failed to receive the required support from delegates from Republika Srpska.

IV. Federation of Bosnia and Herzegovina

Protests in 2014

44. Public protests that started in Tuzla on 5 February were the defining event of this reporting period and a reflection of the growing political, social and economic problems facing the country and the growing frustration among citizens with political leaders and governments. The number of protesters in Tuzla had reached 3,000 by 7 February when the protests turned violent. By the end of the day, both the headquarters of the cantonal government and the City Hall had been set ablaze. The demonstrations and associated violence quickly spread to other cities including Zenica, Mostar, Bihac, Brcko and Sarajevo. In Sarajevo, demonstrations became particularly violent, with the headquarters of the cantonal government and the seat of the Bosnia and Herzegovina and Federation Presidencies being set alight. Regrettably, numerous police officers and some protestors were injured. There were also allegations of mistreatment in custody of those arrested during the protests.

45. In Mostar, protests that started peacefully on 7 February turned to violence that same day with six buildings being damaged (the cantonal government and assembly buildings, the City Hall and city administration buildings and the party offices of HDZ Bosnia and Herzegovina and SDA). The cantonal Minister of the Interior in Mostar resigned at the height of the security breakdown, which further complicated attempts to deal with the security situation. The six-month failure of the ruling coalition in the canton to appoint a cantonal police commissioner also seriously undermined the ability of the police to deal with the violence and it remains of vital importance that a police commissioner is appointed without further delay.

46. In general, law enforcement agencies struggled to deal with the scale of the protests and the security challenges they presented. In particular, a lack of clear understanding of divisions of responsibilities and the absence of mechanisms for activating mutual aid provisions that exist in law contributed to a slow, and at times confused, response from police agencies.

47. In the aftermath of the protests, a new form of civic organization, called "plenum", emerged. The plenums were a forum for citizens, workers, urban intellectuals and others participating in the protests to exchange views and agree on demands they have put before governments. One of the key demands of the plenums has been the resignation of governments and this demand was met in four cantons (Tuzla, Sarajevo, Zenica and Bihac). To date only in Tuzla has a new government been elected, while the Federation Government and the cantonal government in

Mostar have resisted demands for them to resign. In general, the demands of the plenums have centred on anti-corruption measures and social and employment rights. By the end of the reporting period, the plenums were attracting many fewer participants than at the start.

48. The protests received notable international attention, and symbolic protests of support were held throughout the region. International community representatives have been supportive of the right of protesters to demonstrate while making clear that protests must be peaceful. I remain firmly of the view that a proactive and engaged civil society, which holds elected leaders responsible, is vital for the country's democratic future and I hope that the protests will encourage parties to campaign for the upcoming elections on a platform of concrete reforms, rather than the nationalist agendas which have typically dominated election campaigns in Bosnia and Herzegovina. I also hope that the spirit of civic activism will continue with new people standing for election and more citizens turning out to vote in October.

49. The responses of elected officials and political leaders to the protests have varied. Overall, the Sarajevo-based parties have broadly accepted the protests and plenums as a reflection of the frustration of many citizens, while also seeking to minimize their effect. Some parties have sought to divert attention through unrealistic proposals like a call for early elections. Croat and Serb parties have at times sought to portray demonstrations as an organized Bosniak intitiative designed to change the constitutional order of the country, despite the fact that the protests have overwhelmingly focused on basic issues related to corruption and poor governance.

50. Despite the ongoing disputes between the parties in the Federation Government, the government continued to function, meeting regularly and adopting 55 new laws and amendments to 27 existing laws during the reporting period. The Federation Parliament also convened on a regular basis during the reporting period, adopting 8 new laws, 11 amendments to existing laws and 15 drafts. The Speaker of the Federation House of Representatives resigned in January. To date, the body has been unable to elect a replacement, and the two deputy speakers are acting in his place.

Federation President's dismissal of Finance Minister threatens crisis

51. The Federation faced yet another political and financial crisis in January when the entity President dismissed, with immediate effect, the Federation Finance Minister in the absence of legal provisions providing for someone else to sign budget payment transactions, including foreign debt payments. By virtue of the Finance Minister's responsibilities in a number of state-level bodies the situation also had an impact at the state level, including the implementation of Bosnia and Herzegovina's obligations towards creditors and under the IMF Stand-by Arrangement. In close coordination with international partners, including the United States Embassy, the European Union delegation/European Union Special Representative and IMF, my Office engaged directly with the Federation authorities to facilitate a resolution of the dispute.

52. On 3 January, the Federation Prime Minister approached the Federation Constitutional Court to resolve the dispute but also to issue interim measures to allow the Minister of Finance to continue to perform his duties pending the Court's

final decision. I also approached the Federation Constitutional Court by way of an amicus curiae letter on 10 January, outlining my views in respect of the legality of the President's decision and the need for interim measures to avoid serious financial implications in the Federation and Bosnia and Herzegovina as a whole. On 15 January, the Federation Constitutional Court adopted a decision on interim measures, which allowed for continued budget payment transactions, including the payment of Federation internal and direct foreign debts, and facilitated the undisturbed functioning of state-level bodies in which the Federation Finance Minister participates. The Court has not yet ruled on the underlying case.

53. These events exposed a deficit in the system and I am pleased to report that, in April, the Federation Parliament adopted amendments to the Law on Execution of the Budget of the Federation of Bosnia and Herzegovina for 2014, which ensure that, in the absence of the Federation Finance Minister, a person from the Federation Finance Ministry or a member of the Federation government authorized by the Federation government can co-sign payment orders.

Progress on appointment of judges to the Federation Constitutional Court

54. Important progress was made during reporting period towards unblocking long-delayed appointments to the Federation Constitutional Court and its vital national interest panel. The vital national interest panel has been incapacitated for some five years, resulting in the blockage of several acts before the Federation and cantonal legislatures, including the decision on a no-confidence vote against the current Federation government. Following a concerted advocacy effort by my Office over many months with the Federation President, Vice-Presidents and delegates in the Federation House of Peoples, on 20 March the House of Peoples confirmed the appointment of two new judges to the Federation Constitutional Court. The Court now has eight of the total of nine judges in office, the appointment of the ninth remaining on hold pending a decision of the Court's vital national interest panel.

55. Relevant authorities now need to complete the remaining steps to establish a functional vital national interest panel within the Court. The long-standing lack of a functioning vital national interest panel has been a convenient excuse to block a range of key decisions by the Federation and cantonal parliaments. Thus it would be crucial to have a functioning panel ahead of the general elections of October 2014, to ensure that the process of post-election government formation is not further complicated or delayed.

Federation Securities Commission

56. My previous report drew attention to a serious risk to the Federation capital market and the overall economy following a Federation Supreme Court ruling in April 2013 concerning the Federation Securities Commission. Following intensive engagement by my Office, an Authentic Interpretation of the Federation Law on Securities Commission was adopted by the Federation Parliament in November 2013. The Authentic Interpretation eliminated the risks of challenges to decisions made by the Commission in the period from May 2009 to April 2013 and allowed for its continued functioning in a technical capacity until a new commission is formed. My Office remains engaged on this issue.

57. The Federation House of Peoples rejected in March a systematic solution to ensure continuity of office in a range of public institutions in the Federation. The

amendments to the Federation Law on Ministerial, Government and Other Appointments, which are also of relevance and importance for IMF, will need to be taken up again in the period ahead.

Federation constitutional reform

58. No concrete progress on the reform of the Federation Constitution has been made during the reporting period, despite a general consensus that such reform is necessary, and progress is unlikely in advance of the October elections. However, the Federation House of Representatives has scheduled a thematic session on 23 April to discuss initiatives to amend the Constitution of the Federation.

Law on the Rights of Returnees to their Pre-war Place of Permanent Residence

59. On 11 April, the Federation Parliament adopted the Law on the Rights of Returnees to their Pre-war Place of Permanent Residence in Republika Srpska and the Brcko District. The law seeks to ensure continued access to pension, veterans', disability and health benefits in the Federation for returnees to Republika Srpska and the Brcko District. Republika Srpska authorities have claimed that the law will encourage persons not currently living in Republika Srpska to register their residence there only for the purpose of voting in Republika Srpska in the upcoming October elections without risk to their benefits in the Federation. The Speaker of the Republika Srpska National Assembly has said that Republika Srpska would challenge the constitutionality of the law before the Bosnia and Herzegovina Constitutional Court and consider unspecified legislative counter-measures in this entity. The law appears mainly to affirm existing rights to continued benefits in the Federation for those who return to pre-war homes in Republika Srpska but does streamline certain procedures.

Mostar

60. No concrete action has been taken by domestic authorities or political parties to implement the 2011 ruling of the Bosnia and Herzegovina Constitutional Court that the current electoral system is unconstitutional. As a result, local elections due in October 2012 have still not been held in Mostar and the city remains without a functioning City Council. The Mayor, in an acting capacity, continues to oversee the day-to-day functioning of the city.

61. As a result of this situation, new legal provisions were required to enable the city to adopt a budget for 2014. In February, following encouragement from my Office, the Federation Parliament adopted amendments to the Law on Budgets that authorize the Mostar City Mayor to pass — with the concurrence of the city's Head of Finance — both a decision on temporary financing for the first quarter of 2014 and a 2014 budget. In March, the Mostar Mayor and the Head of the Finance Department signed a decision on temporary financing, which provides for financing over the first three months of 2014. At the time of writing, a budget for 2014 that would allow budget payments to continue after 1 April has not been adopted.

62. On 16 December 2013, HDZ Bosnia and Herzegovina put forward amendments to the Bosnia and Herzegovina Election Law to allow for local elections in Mostar, essentially reflecting that party's proposed solution, which had already been rejected by other parties. While the Bosnia and Herzegovina Constitutional Court ruled against an attempt by the Bosniak caucus of the House of

Peoples to veto the amendments on vital national interest grounds, the amendments have little chance of adoption by the Bosnia and Herzegovina Parliamentary Assembly. The framework document put forward by six other parties, following engagement by my Office, remains on the table as a possible basis for a solution. The lack of serious engagement by HDZ Bosnia and Herzegovina and SDA to find a solution in line with the Court's ruling remains of deep concern and has resulted in a deterioration of services to the citizens of Mostar.

V. Republika Srpska

63. During the reporting period, the institutions of Republika Srpska convened on a regular basis, functioning against a backdrop of rising tensions between the ruling coalition and Republika Srpska opposition parties.

64. There were peaceful protests in Banja Luka, Bijeljina and Prijedor in February, but they attracted far fewer people than protests in the Federation. The protests in Banja Luka on 18 February, gathering representatives of non-governmental organizations, students, war veterans, pensioners and workers, were directed against allegedly corrupt privatization cases and unpopular social measures taken by the Republika Srpska authorities. The opposition parties did not take part in the protests. The Republika Srpska authorities characterized the protests as an attempt to destabilize the entity under the instruction of foreign agents. Subsequent protests in the entity focused more narrowly on the grievances of war veterans.

65. During the reporting period Republika Srpska officials initiated a campaign to discourage mounting public criticism against the current authorities. This campaign included arrests of critics of the Republika Srpska government and the President by the police on apparently spurious charges, harassment of civic activities, announcements of plans to introduce restrictive laws regulating the work of the non-governmental organization sector, and the publication of a book on the SNSD website listing individuals and organizations that allegedly threaten the Republika Srpska constitutional order. Equally worrisome are measures establishing political control over media and putting political appointees in charge of the entity public broadcaster. In December, the Republika Srpska President established a vaguely defined Council for the Protection of the Republika Srpska Constitutional Order with competencies and a personnel composition unknown to the public. My Office is monitoring these issues closely in regard to the obligation of all authorities to uphold the human rights guaranteed under annex IV of the Peace Agreement.

66. As a measure to improve the competitiveness of the Republika Srpska economy in 2014, the government reduced the labour tax burden through a tax exemption on monthly incomes. In December, the government launched one-stop shop business registration in Republika Srpska, which will ease the registration of new businesses and ensure that the process takes no more than three days, and reduce the administrative burden on businesses.

67. Disputes concerning the primary education of some Bosniak pupils in Republika Srpska that I raised in my previous report remained unresolved during the reporting period despite the engagement of the Organization for Security and Cooperation in Europe, my Office and others. In one area, the parents decided to de-register their children from the local primary school, choosing instead to continue their schooling at a parallel school established outside the Republika Srpska

education system. Little progress of note has been made by the Conference of Education Ministers on the broader issue of education reform.

68. The Republika Srpska authorities have continued their policy of denying the High Representative access to official information and documents required to fulfil his mandate. Under annex X of the General Framework Agreement, all authorities in Bosnia and Herzegovina are obliged to fully cooperate with the High Representative as well as with the international organizations and agencies as provided for in article IX of the Agreement. The practice of the Republika Srpska government not to provide information and documents requested by the Office of the High Representative goes back to 2007. Repeated calls to the Republika Srpska authorities by the Peace Implementation Council, reminding them of their obligation to ensure that the High Representative has full access to documents in a timely fashion, and my most recent letter to the Republika Srpska Prime Minister, of 21 March 2014, have had no impact. In a speech on 26 March 2014, the Republika Srpska President boasted, in vulgar terms, of the entity's non-compliance with this obligation.[10]

VI. Entrenching the rule of law

69. The Structured Dialogue on Justice launched by the European Union with the authorities in Bosnia and Herzegovina, which I have welcomed, continued to be the forum in which to discuss the further development of the judicial and wider justice sector in the country. My Office continued to follow certain developments within the Dialogue and remains in contact with the European Union, as some of the issues under discussion in the Structured Dialogue are of special importance for the civilian implementation of the General Framework Agreement, including those related to the division of competencies between the state of Bosnia and Herzegovina and its entities under the Bosnia and Herzegovina Constitution.[11] There were two developments of special importance during the reporting period: the draft law on courts of Bosnia and Herzegovina and the draft law on the High Judicial and Prosecutorial Council.

70. Following a recommendation of the Structured Dialogue held on 11 and 12 November 2013 in Banja Luka under which the adoption of the draft law on courts of Bosnia and Herzegovina is to remain a priority for the current legislature, the Ministry of Justice of Bosnia and Herzegovina forwarded a draft text to the Council of Ministers for adoption at its session of 22 January. However, the draft law was taken off the agenda. The draft remains controversial as it diminishes the criminal jurisdiction of the state of Bosnia and Herzegovina.

[10] "I said [*expletive*] Office of the High Representative. There is no Office of the High Representative anymore. There will be no sending of any papers to the Office of the High Representative", *BN Television*, 26 March 2014.

[11] These include discussions about the competencies of the state of Bosnia and Herzegovina in criminal matters; changes in the functioning of the Court of Bosnia and Herzegovina and a legal framework for establishment of the Appellate Court of Bosnia and Herzegovina; a new law on the High Judicial and Prosecutorial Council of Bosnia and Herzegovina; international cooperation on war crimes prosecution; and the implementation of the war crimes prosecution strategy.

71. A new law on the High Judicial and Prosecutorial Council is being prepared and discussed within the Structured Dialogue. The draft law contains a number of controversial proposals, including the appointment of Chief Prosecutors by relevant parliaments rather than by the Council, as is currently the case. These problems were highlighted by the Venice Commission in its March 2014 opinion on the draft text.

Justice sector reform strategy

72. The current justice sector reform strategy in Bosnia and Herzegovina expired at the end of 2013. The new strategy for the period 2014-2018 has yet to be finalized and adopted by the state, entity and Brcko District authorities.

War crimes prosecution

73. The Supervisory Board for the Implementation of the War Crimes Prosecution Strategy continued to meet on a regular basis during the reporting period. Following its earlier conclusion that the aim of having the most complex cases dealt with by 2015 is unlikely to be met, the Board adopted conclusions in February 2014 asking the Bosnia and Herzegovina Prosecutor's Office to assess when this important category of cases will be addressed.

74. On 18 July 2013 the European Court of Human Rights issued its judgement in the *Maktouf and Damjanović v. Bosnia and Herzegovina* case, in which it found a violation of the European Convention on Human Rights in the retroactive application of the Bosnia and Herzegovina Criminal Code from 2003 to two individual cases of war crimes committed in 1993. Starting in September 2013, the Bosnia and Herzegovina Constitutional Court began interpreting the scope of the European Court's decision to apply to a much broader range of cases than those directly addressed by the decision, quashing a number of judgements by the Court of Bosnia and Herzegovina. These included cases involving convicted genocide offenders in the Srebrenica case where perpetrators had received more than 30 years' imprisonment for taking part in the execution of more than a thousand persons and persons convicted of serious war crimes against civilians with more than 20 persons killed.

75. On 5 December, the Committee of Ministers of the Council of Europe, a body that supervises the execution of judgements of the Court of Human Rights, adopted a decision in this case in which it recalled that the Court had stated in its judgement that it was not reviewing the retroactive application of the 2003 Code in war crimes cases *in abstracto*, but rather that this issue should be assessed on a case-by-case basis, depending on the specific circumstances of each case. It also stressed the importance for the domestic authorities to take all necessary measures to secure the continued detention of those convicted and awaiting a retrial by the Bosnia and Herzegovina Court, provided that their detention is compatible with the rulings of the European Court of Human Rights.

76. As a result of the judgements of the Bosnia and Herzegovina Constitutional Court quashing earlier judgements of the Court of Bosnia and Herzegovina, the latter Court released previously convicted individuals from serving their prison sentences pending re-judgement and rejected motions for pre-trial detention, finding that there are no grounds under the Criminal Procedure Code for their detention. The freeing of individuals convicted of the most serious war crimes and genocide

pending new judgements provoked reactions from both organizations of victims and witnesses in those trials, especially the Movement of Mothers of the Enclaves of Srebrenica and Žepa.

77. The issuance of INTERPOL war crimes arrest warrants by Serbia and Croatia for citizens of Bosnia and Herzegovina raised political tensions, despite the existence of cooperation protocols with both countries for handling war crimes prosecutions. Under the 2010 INTERPOL resolution on cooperation with new requests concerning genocide, crimes against humanity and war crimes, countries have 30 days to file protests against issued warrants after being informed by the General Secretariat of INTERPOL of the request. The controversy within Bosnia and Herzegovina revolved around whether the Bosnia and Herzegovina authorities would file protests against those warrants and whether the same standard would be applied to both arrest warrants. The situation calmed after the Bosnia and Herzegovina Ministry of Justice filed official protests to the General Secretariat in regard to both cases, as tasked by the Presidency.

VII. Public security and law enforcement

78. Political interference in operational policing continued to be the main challenge to the successful functioning of the police in the country. One area of interference is in the form of delayed appointments of police management personnel at various levels of administration in Bosnia and Herzegovina. The Council of Ministers completed the appointment process in April for several state-level police directors and deputy directors more than a month after the expiration of their mandates. Commissioners were appointed in the Una-Sana and Tuzla Cantons in April, following significant, multi-year delays. The Herzegovina-Neretva Canton has been without a police commissioner since September 2013 and is now the only canton in the Federation without an appointed Commissioner.

79. My Office continues to monitor changes to police legislation, and there were a number of significant developments in April 2014. During that month the Council of Ministers adopted technical improvements to the Bosnia and Herzegovina Law on Police Officials. The Federation Government adopted a revised Federation Law on Internal Affairs that provides improved budgetary and operational autonomy for the Federation Director of Police. However, the National Assembly of Republika Srpska adopted amendments to the Republika Srpska Law on Internal Affairs, which — contrary to the pattern in the Federation and the state level — strengthened the role of the Republika Srpska Minister of the Interior over police staffing-related issues.

VIII. Economy

Economic indicators

80. The economy of Bosnia and Herzegovina continued to recover in 2013. According to IMF, growth is estimated to have reached over 1 per cent in 2013 and is projected to pick up further in 2014 in line with the improving outlook in Europe. The 6.7 per cent increase in industrial production in 2013 was mainly due to a 9.5 per cent increase in manufacturing and a 5.6 per cent increase in electricity generation, itself the result of heavy rainfall. Exports also grew — by 6.6 per cent — and imports decreased by 0.5 per cent. As a result, Bosnia and Herzegovina's

foreign trade deficit in 2013 decreased by 8.3 per cent, while the coverage of imports by exports was 55.2 per cent.

81. Despite this, unemployment levels continued to rise, with the administrative unemployment rate estimated at 44.5 per cent. The average net salary and pension in Bosnia and Herzegovina in December 2013 amounted to the equivalent of about €428 and €173, respectively.

82. Newly revised foreign direct investment data issued by the Ministry of Foreign Trade and Economic Relations also raised concerns, showing a 34 per cent decrease in foreign direct investment over 2012. This data suggests that the country's leaders could do much more to enable Bosnia and Herzegovina to realize its full growth potential.

Fiscal issues

83. Despite a record collection of indirect tax revenue in 2013, which makes up most of budget revenue at all levels of government, the ultimate indirect tax revenue inflow to all levels of government — except for the state — was below the 2012 level due to increased VAT refunds and foreign debt payment obligations in 2013. The consequent fiscal pressures created problems in executing timely budget payments and in some cases drove governments into unfavourable financial arrangements.

84. The cantons in particular have failed to adjust to the indirect tax revenue shortfall, which added to their unaddressed spending problems from the past and lack of willingness for reforms. This created serious fiscal challenges with a wider impact, considering that cantonal authorities employ in total some 50,000 persons, including in the fields of police, education, judiciary and public administration.

85. The indirect tax revenue shortfall, non-realization of some budgeted revenue sources and delays in international disbursements caused by delays in the implementation of disbursement requirements also increased fiscal pressures on the entities. However, IMF helped the entities to maintain fiscal stability in the reporting period by releasing two disbursements under the Stand-by Arrangement and by conditioning the disbursements on concrete reform measures.

86. Despite the benefits of compliance with the Stand-by Arrangement and although the 2014 entity budgets are highly dependent on IMF and linked World Bank disbursements, discussions with Bosnia and Herzegovina authorities in February did not pave the way for consideration of the sixth review by the IMF Executive Board.

87. The indirect tax revenue shortfall in 2013 did not affect the state level, as the state receives a fixed amount of revenue for financing its institutions. However, it is of concern that the level budgeted for state institutions in 2013 was the same as in 2012 and that no increase is foreseen in 2014 either. This could have an impact on the functioning of the state institutions and their ability to meet all of their obligations, including those relevant for the European Union and NATO.

88. Fiscal challenges are likely to continue in 2014, owing to a further increase in foreign debt payments, and in the absence of continued progress on structural reforms.

Update on the Electricity Transmission Company

89. The entity Prime Ministers made notable progress during the reporting period to ensure the full functioning of the state-level Electricity Transmission Company (Transco). In December and March, after many years of delay, in their capacity as members of the Transco Shareholders Assembly, they adopted outstanding audit reports, agreed to development and business plans for the country's electricity transmission grid, and completed outstanding senior appointments to the company. They also invited experts of the European Commission/Energy Community secretariat to provide suggestions for developing Transco's investment plans. The Bosnia and Herzegovina Council of Ministers also appointed new company management board members.

90. In March, following changes to the relevant legislation, Transco's shareholders also agreed to distribute some €50 million of profit accrued between 2007 and 2012 to the entities.

91. The long-overdue and welcome progress towards ensuring the full functioning of Transco follows many years of obstruction which included previous attempts by Republika Srpska to unilaterally withdraw from the company and split the electricity transmission system along the inter-entity boundary line. The shareholders and new management should now focus on the implementation of adopted decisions, having in mind the urgent need for investments in the electricity transmission grid. A fully functioning electricity transmission system will benefit the country and the region.

IX. Return of refugees and displaced persons

92. The return of refugees and displaced persons to their pre-war homes is central to the full implementation of the General Framework Agreement. Events during the reporting period confirm that much remains to be done before this obligation can be considered completed.

93. Regrettably, the revised strategy for the implementation of annex VII of the Agreement continues to lack the necessary support to ensure its full and timely implementation. The strategy recognizes that political influence and lack of adequate education at all levels represent a basic obstacle to return. Education is also of central importance for reconciliation and mutual understanding in Bosnia and Herzegovina as a basis for sustainable peace and stability. During the reporting period, disputes related to the curriculum for Bosniak children in returnee communities in Republika Srpska remained a source of tension. The problems in the education sector confirm the urgent need for the competent authorities throughout Bosnia and Herzegovina to seriously address education reform and raise standards based on the principles of non-discrimination, non-segregation and inclusiveness.

94. A number of events confirmed that domestic authorities are often not in compliance with the annex VII requirement that they create the "political, social and economic conditions conducive to the voluntary return and harmonious reintegration of refugees and displaced persons, without preference for any particular group". As an example, local SDS authorities in the Republika Srpska municipality of Visegrad continued in their efforts to expropriate and demolish a refugee-reconstructed house, which is also a particularly emotional place in which Bosniak men, women and

children were burned alive in June 1992. Following an order by the Court of Bosnia and Herzegovina related to an ongoing war crimes investigation, an exhumation in the courtyard of the house has been conducted. Two persons previously received extensive sentences from the International Tribunal for the Former Yugoslavia in connection with this case, and an additional suspect was arrested in France during the reporting period.

95. Given the outstanding obstacles to the full implementation of annex VII, I wrote to the United Nations High Commissioner for Refugees to ask that his Office (UNHCR) reconsider its recommendation on cessation of refugee status for refugees from Bosnia and Herzegovina. In my view, such an announcement on the termination of refugee status might by misused by some parties in the pre-election period and complicate an already unstable political environment in the country. I am grateful to UNHCR for taking the concerns expressed by me and others into account and look forward to assisting it in reconsidering this issue at a later stage.

X. Media developments

96. No progress was made during the reporting period to advance the long-outstanding reform of the public broadcasting system. As a result, the three public broadcasters continued to lack proper coordination and management of joint activities. The Republika Srpska government also publicly stated its opposition to the formation of the Public Broadcasting Corporation and called for changes to state-level legislation envisaging the formation of the Corporation. The Corporation would enable a more efficient use of common resources and steps taken by the competent authorities postponing its establishment are proving to be extremely damaging.

97. Of equal concern is the growing impression that the authorities are influencing the work of the public broadcasters, including by failing to appoint new members of governing boards and by appointing individuals with links to the political establishment to management positions.

98. On a more positive note, the Bosnia and Herzegovina Parliamentary Assembly finally appointed a new Council of the Communications Regulatory Agency. The new Council immediately initiated a procedure for the long-overdue appointment of a new Director General. The Council also adopted changes to the Code on Commercial Communications, which the previous Council utilized to reduce the amount of advertising time of the public broadcasters. This reverses a problematic decision of the previous Council, which posed a threat to the financial sustainability of the public broadcasting system.

XI. Defence matters

99. During the reporting period, the Ministry of Defence and the Armed Forces of Bosnia and Herzegovina continued to improve the control and management of the country's ammunition, weapons and explosive stockpiles. With international community support, efforts have centred on setting up an ammunition surveillance process and database, and facilitating the disposal of surplus ammunition and weapons under the 2008 agreement on final disposal of all rights and obligations

over movable property that will continue to serve defence purposes. Nevertheless, the risk of accidental explosion still exists in Bosnia and Herzegovina because of ageing ammunition and poor storage conditions. No further progress has been made to agree a mechanism through which surplus items would be sold. On a more positive note, a new Federation Law on Amnesty, which completed the legislative framework in this area, has led to the collection of a significant number of small arms and light weapons, with media awareness campaigns encouraging further progress.

100. A continued lack of transparency in the mine action sector has led to donations being diverted away from the country and called into question the main goal of the Bosnia and Herzegovina mine action strategy to have the country free of mines by 2019.

XII. European Union military mission

101. On 13 November 2013, the Security Council, by resolution 2123 (2013), extended the executive mandate of the European Union military mission in Bosnia and Herzegovina (EUFOR). EUFOR continues to play a central role in supporting Bosnia and Herzegovina's own efforts to maintain a safe and secure environment. Violent demonstrations in several cities during the reporting period and irresponsible attempts by some to manipulate them to raise inter-ethnic tensions demonstrated the fragility of the safe and secure environment and the importance of the continued presence of EUFOR with an executive mandate in theatre.

XIII. Future of the Office of the High Representative

102. The Peace Implementation Council Steering Board met at the level of political directors on 4 and 5 December 2013, again expressing its concern about the situation in the country and the ongoing failure to address the remaining objectives and conditions for the closure of the Office of the High Representative. The next meeting of the Steering Board is scheduled for 21 and 22 May 2014.

103. As in previous years, my Office continues its responsible efforts to cut overhead costs. Since the beginning of my mandate the budget of the Office has been reduced by more than 40 per cent and staff by more than 50 per cent. However, it remains essential that I am equipped with the budget and staff required to carry out my mandate effectively.

XIV. Reporting schedule

104. In keeping with the proposals of my predecessor to submit regular reports for onward transmission to the Security Council, as required under Council resolution 1031 (1995), I herewith present my eleventh regular report. Should the Secretary-General or any Security Council member require information at any other time, I would be pleased to provide an additional written update. The next regular report to the Secretary-General is scheduled for October 2014.